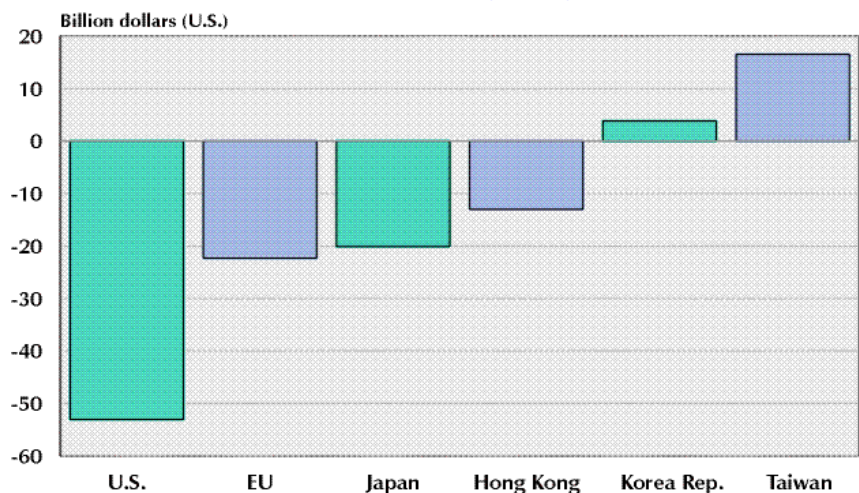


China

China, with its plans to develop many key industries and largely untapped consumer market, represents enormous potential for U.S. exporters. Yet this market presents barriers and bottlenecks that significantly dampen prospects for U.S. exporters. China's complex maze of tariff and non-tariff barriers to trade—licensing requirements, import quotas, service sector barriers, conditioned technology transfer, limited trading rights, among others—has restrained our export growth and contributed to a growing, persistent bilateral trade deficit with China. The deficit rose to \$49.7 billion last year, second only to Japan and a fivefold increase since 1990. Based on current trends (through June 1998), our bilateral deficit with China could approach \$60 billion by year-end.

While U.S. exports to China are growing at 4 percent in the first six months of the year, our imports from China are growing at more than four times that rate at 17 percent over the same period. Because China's major trading partners have maintained less of an imbalance, the United States has accounted for an increasing share of China's total trade surplus. In 1980, 5 percent of the goods China sold to the world went to the United States. Today, 18 percent do. China's trade surplus with the United States in 1997 was more than twice as great as its surplus with the European Union (EU). At the same time, Japan, Korea and Taiwan have successfully penetrated the Chinese market, raising their combined share of China's imports from 19 percent in 1990 to 42 percent in 1997.

Major Trading Partners' Trade Balances
with China (1997)



Sources: IMF Direction of Trade (June 1998); Taiwan Ministry of Economic Affairs

A recent economic slowdown may constrain China's readiness to rectify the trade imbalance. China's economy (gross domestic product) has grown by almost 10 percent throughout much of the 1990s. However, in the first quarter of 1998, economic growth slowed to a 7.2 percent annual rate compared to a 8.8 percent rate last year, and some analysts predict growth of 6.5 to 7 percent for the coming year. This slowdown is due, in part, to a dampening of import demand in affected economies in Asia. In the first four months of 1998, China's exports to Japan, Indonesia, and South

Korea fell 3 percent, 33 percent, and 25 percent respectively. Also, a deceleration of inward foreign direct investment and China's pursuit of an ambitious reform agenda (including banking reform and reduced assistance to state-owned enterprises) are further constraining Chinese imports. These reforms are among the most far-reaching ever undertaken by China since the founding of the People's Republic in 1949.

Any U.S. strategy to advance our export interests in China must focus on increasing our exports rather than cutting our imports. Much of the increase in U.S. imports from China in recent years has resulted from a displacement of U.S. imports from higher wage production economies such as Hong Kong, Korea, Singapore, and Taiwan by U.S. imports from lower wage production in China. For example, while our imports of footwear from these four economies dropped by \$3 billion from 1990 to 1995, our imports of footwear from China increased by \$3 billion over the same period. In many product sectors, therefore, increased imports from China are displacing Asian—not American—production.

The challenge for U.S. trade policy will be to persuade China to embrace market liberalization as it pursues its reform agenda. Greater market access for foreign goods and services and a more open regulatory environment for foreign investment are essential stimulants for achieving China's domestic economic development objectives, which include domestic restructuring, greater efficiencies, economies of scale, and growth. Our charge is to increase the awareness of China's economic planners that the reform path they have chosen is compatible with—and indeed, fundamental to—open markets and acceptance of the global trading system.

TPCC Strategies for Increasing Exports to China

The joint statement announced on June 21 by Presidents Clinton and Jiang provided a blueprint for a broader cooperative relationship, which supports both U.S. market access and Chinese domestic reform goals by focusing on increasing our exports and sharing technical expertise. This strategy intensifies commercial engagement with China.

Commerce Secretary Daley and Minister Shi of China's Ministry of Foreign Trade and Economic Cooperation (MOFTEC) will co-chair the 12th session of **U.S.-China Joint Commission on Commerce and Trade (JCCT)** in Washington, D.C. this Fall. As a forum for commercial exchange, the JCCT is playing a significant role in implementing the initiatives coming out of the Summit. Last year, the United States and China strengthened the institutional mechanisms of the JCCT to expand commercial cooperation, agreeing to concentrate on six core elements: commercial dialogue, standards, commercial law, project finance, business development, and export controls. The focus of this year's discussions under the JCCT will be to ensure that commercial initiatives agreed to during the Summit receive appropriate direction and that a plan of implementation is set in motion. In addition, JCCT subgroups in commercial law, trade and investment, and business development will intensify their commercial dialogue ensuring that exporter and investor concerns are pressed and resolutions to ongoing issues are developed.

- The JCCT will continue to be central to our efforts to expand commercial cooperation, and will evolve along with priority issues as they arise. The JCCT was restructured last year to better address the day-to-day concerns of U.S. business in China. Additional refinements are expected next year.

Multi-Agency Infrastructure Mission

China is expected to pursue an ambitious program of infrastructure development. However, in order to build all the ports, roads, bridges, airports, power plants, telecommunications networks and rail lines that it will need, China must acquire foreign capital, expertise and equipment. Competitive U.S. firms should be able to find opportunities in each of these sectors.

As part of agreement at the Summit to expand cooperation in infrastructure development, the State Development and Planning Commission, MOFTEC, and the State Economic and Trade Commission will host a multi-U.S. agency coordinated mission to China in early 1999.

- Commerce Secretary Daley will lead the mission joined by senior government officials from the Departments of Transportation, Energy, and Housing and Urban Development; Ex-Im Bank; and CEOs of large-, medium-, and small-sized firms engaged in infrastructure-building endeavors.

Commercial Law and Arbitration

One of the primary goals of the JCCT Commercial Law Working Group is the resolution of outstanding commercial disputes. Since October 1997, Commerce and MOFTEC have met bimonthly. Issues discussed include commercial disputes, recognition and enforcement of arbitral awards, commercial law seminars, and electronic commerce. The Commerce Department and MOFTEC co-sponsored a seminar on arbitration this spring in Beijing in which U.S. and Chinese legal experts discussed steps to ensure prompt and fair enforcement of arbitral awards in China. The seminar led Commerce to propose a number of steps China could take to increase investor confidence in China.

Commerce and MOFTEC have agreed to hold seminars on corporate and partnership law and regulation of electronic commerce. Potential topics include the responsibilities of officers, directors and employees; checks and balances used to ensure compliance with these responsibilities; procedures for corporate procurement; and mergers and acquisitions. In addition, various ministries and agencies of the Chinese Government and Commerce have agreed to address, in the JCCT context, issues relating to the establishment, regulation, and potential benefits of electronic commerce and the implications for broader bilateral trade.

U.S.-China Aviation Infrastructure Initiative

The Governments of the United States and China have agreed to expand their current aviation and airport infrastructure cooperation through a comprehensive five-year aviation infrastructure initiative. A significant portion of the initiative focuses on aviation safety and training, airport development and management, and airspace management utilizing modern air traffic control systems. This initiative also recognizes the need for China to expand its aviation infrastructure to accommodate the additional transport aircraft required for China's continued economic development and demand for passenger and cargo air transportation.

- We will sponsor aviation-related conferences, trade missions, and industry exchanges of U.S. and Chinese government and industry officials to identify commercial opportunities and facilitate business contacts.
- We will also encourage technical exchanges and short-term study tours in the United States for Chinese airport construction and management delegations. These tours give U.S. airport planners, designers, developers, and managers opportunities to develop business contacts.

U.S.-China Insurance Initiative

The two countries have agreed to conduct a cooperative, bilateral review of China's insurance regulatory and supervisory systems and discuss how best to strengthen its regulatory capabilities as China continues to open its markets and integrate into the global economy.

- We will discuss China's insurance regulatory environment at this fall's JCCT meeting in Washington. This will be followed by a Regulatory Review Mission to China including U.S. Government officials, private sector representatives, state insurance regulators, and members of the U.S. academic community. They will meet with officials from the People's Bank of China in Beijing and at the provincial level for detailed discussions on China's regulatory and supervisory framework. Upon completion of the review, the United States and China will establish priority areas for insurance regulatory development in China.

U.S.-China Housing Initiative

The Governments of the United States and China have agreed to embark upon a joint housing initiative to address housing finance and construction issues and support China's social reform efforts by providing sector-specific guidance and cooperation as China pursues housing reform measures.

- The U.S. Government will invite a delegation of Chinese housing officials to the United States this year to initiate a bilateral dialogue under the auspices of the JCCT. We will also consider the establishment of a regular program and schedule of technical exchanges after an initial needs assessment is completed, and form a U.S.-China Residential Building Council to undertake the needs assessment and work on future cooperative endeavors and issues.

U.S.-China State and Non-State Enterprise Forum

The great majority of our official economic and commercial dialogue with our Chinese counterparts is with ministries, corporations, and other entities responsible for managing state-owned enterprises. U.S. export and investment interests will continue to be focused on the state sector as they control decision-making on state-sponsored and other high dollar value projects. Our challenge will be to get a new, leaner state sector to embrace trade liberalization.

While state enterprises employ about 65 percent of the urban workforce, they account for 50 percent less in overall industrial output than they did in 1978. In contrast, China's non-state sector, which is made up of township, collective, foreign-funded and private enterprises, accounts for more than 50 percent of the nation's industrial output. We have had very little contact with this significant and growing segment of China's economy.

- We will hold a conference with the Chinese government next year on the role of market reforms in the evolution and transformation of the state and non-state sectors in China's future economic development. The event will bring together representatives of the U.S. private sector and the Chinese non-state sector. This conference will address the evolution and transformation of the state and non-state sectors in China's future economic development. The U.S.-China Business Council has agreed to work with the Department of Commerce to develop an agenda and possible follow-on seminars.

Electronic Commerce/Internet Applications

Electronic commerce is rapidly becoming an economic force around the world and presents many legal and policy issues that affect both trade in goods and services. It is, therefore, important that we engage China on issues relating to the establishment, regulation, and potential benefits of electronic commerce and implications for broader bilateral trade and communications. The Administration favors a market driven approach in China and other countries.

- We will strive to move China away from its stringent regulatory approach to Internet access and electronic commerce. As a first step, the Chinese Government and Commerce have agreed to hold a seminar in Washington this fall to discuss Internet policy issues.
- The National Telecommunications and Information Administration (NTIA) of the Department of Commerce will coordinate seminars and an exchange of U.S. and Chinese experts on distance learning, telemedicine, and telehealth.
- The second annual China-America Telecom Summit is expected to be held in 1999, with discussion topics including electronic commerce, the Internet, and rural telecommunications development.

Interagency Advocacy Support

In April 1998, Westinghouse signed a \$168 million contract with the China Electric Power Technology Import and Export Corporation for the Yuzhou Thermal Power Project. The project, funded by the Asian Development Bank (ADB), will include an estimated \$86 million in U.S.-source steam turbine generators and auxiliary equipment. Randy Zwirn, President, Westinghouse Power Generation said, "The contract will provide work in our U.S. factories, and will advance the cooperation with our joint venture partners and suppliers in China by providing them with jobs and advanced technology. We are grateful for the assistance of the U.S. Embassy, the U.S. Executive Director at the ADB, and the U.S. Department of Commerce in helping secure this important project."

The award winner was selected by the Asian Development Bank's international competitive bidding process. The project was jeopardized by fierce competition from several companies and delays in the decision-making process. To address these concerns, the interagency advocacy team initiated a coordinated advocacy plan including a letter from Secretary Daley, verbal support from then Secretary of Energy Peña, written and verbal support from Ambassador Sasser, and continuous strategic support from the Advocacy Center, the Commercial Service in Beijing, and U.S. Executive Director at the ADB, Ambassador Linda Tsao Yang.

Cooperation on Energy and Environment

The U.S.-China Energy and Environment Cooperation Initiative (EEC) is an outgrowth of the Environment and Sustainable Development Forum and was agreed upon by Presidents Clinton and Jiang in October 1997. The EEC pledges the two nations to undertake sustained joint cooperation in three priority areas: urban air quality, rural electrification, and clean energy sources and energy efficiency. In implementing the EEC, the United States and China agreed at this year's Summit to the following steps:

- The United States and China will cooperate on Phase One of China's Nationwide Air Quality Monitoring Network, using U.S. equipment and a technical assistance grant from the Environmental Protection Agency.
- The Oil and Gas Industry Forum will hold its first meeting in Beijing in November to promote cooperation between industry and government representatives of the two countries to discuss and facilitate the strategic and operational issues facing the U.S. petroleum industry working with Chinese counterparts. In addition, the United States and China are holding an energy finance conference this year in Beijing. Already U.S. firms and Chinese entities have signed contracts in the energy and environment area, including agreements for two power projects and three coal bed methane exploration contracts.

Export Credit Financing

Following President Clinton's June 1998 trip to China, Ex-Im Bank Chairman James Harmon visited Beijing, Hong Kong, Chengdu and Shanghai in July. Building on the President's theme of strengthening trade ties between the United States and China, the Ex-Im Bank trip produced concrete results. In Beijing, Ex-Im Bank signed a total of four memoranda of understanding (MOU) with the Bank of China, the State Development Bank, and the Industrial and Commercial Bank of China. These MOUs will pave the way for U.S. exporters to establish a toehold in a market abounding with opportunities, particularly in the areas of limited recourse project finance structures, medical equipment sales, and environmentally beneficial equipment.

Ex-Im Bank has played a key role in supporting U.S. exports illustrated by the \$5.4 billion of Ex-Im Bank loans and guarantees currently outstanding to Chinese buyers. In FY 1998 alone, Ex-Im Bank expects to authorize approximately \$1 billion in support of U.S. goods and services to China. However, more opportunities exist, and the competitive forces are intense. The European and Japanese export credit agencies stand ready to aggressively support their exporters' products into China. Ex-Im Bank is now positioned better than ever to provide U.S. exporters with competitive financing for their sales into this important market.

U.S.-China Agricultural Trade Initiatives

The Governments of the United States and China are expanding their cooperation over agricultural trade issues and U.S. exports. For instance, earlier this year, USDA (FAS/APHIS) came to an important agreement with China's Animal and Quarantine Service (CAPQ), on expanding market access for export of table grapes. Furthermore, China is about to formally accept important sanitary and phyto-sanitary concepts regarding

regionalization. Operational details for the two new agreements are still being worked out. In 1997, U.S. grapes exported directly to China were valued at about \$550,000, while transshipments of grapes through Hong Kong exceeded \$75 million. Since 1995, USDA has annually authorized \$100 million in credit guarantees for sales of U.S. Agricultural products to China under the Commodity Credit Corporation's Export Credit Guarantee Program (GSM-102). USDA has sent several teams of credit experts to China to educate banks and importers on U.S. programs. As a result, export sales under the GSM program for China increased by 14% over last year.

Help for Small Business

The United States and China have agreed to establish a working group to expand the number of small- and medium-sized businesses involved in U.S.-China trade. This initiative should help U.S. firms overcome the difficulties of doing business in China and lead to new commercial partners.

- TPCC agencies will focus on forming the small business working group at the JCCT session this Fall.

Target Sectors for Export Growth

TPCC agencies will target trade promotion activities on key sectors of the Chinese economy where we expect there to be growing demand for U.S. goods and services. We expect growing demand for U.S. expertise and equipment to meet China's infrastructural needs, U.S. industrial equipment and supplies for China's booming industries, and consumer goods and services for China's burgeoning middle class.

- TPCC agencies will seek private sector advice regarding factors contributing to lagging U.S. market share in sectors where U.S. companies are competitive, yet our EU and Japanese competitors have been more successful. Recent analysis suggests that the EU and Japan have larger shares of the Chinese market in fast-growing sectors like telecom, plastics, machines, steel, fabrics, and automatic data processing equipment. It is essential that our sectoral strategy relies on solid input from American businesses operating in the Chinese market.
- We have a very ambitious market Development Cooperator Program (MDCP) in China supporting the interests of several sectors, including machine tools, information technologies, construction, printing and publishing technologies, and medical and environmental technologies. MDCP projects in China have been successful in increasing U.S. market share (medical device exports reached \$126 million in 1997, a 6 percent increase of 1996) and also the number of small- and medium-sized businesses operating in China (approximately 80 percent of membership in the printing and publishing association is comprised of small businesses).